

Executive Summary

A wide gulf exists today in American politics. On one side are voters anxious about globalization and its impact on their ability to make a good living. On the other are economists, policy makers, and pundits who maintain that trade is good for the economy and that the only problem it raises is that its large benefits are too broadly diffused throughout the population for any single voter to notice.

And so these policy makers and opinion leaders have taken it upon themselves to educate the American public about the benefits of the globalization status quo, resting their effort heavily on the suggestion that “all economists believe” globalization is good for American workers.

The problem for this approach is that those worried about what the integration of a rich U.S. economy and a much poorer global economy means for their living standards have a better grasp of the underlying economics. Open the international trade textbook and one will find two key predictions about this global integration: it can indeed harm the majority of American workers, and it actually does have a natural constituency—the most economically privileged Americans. Not for nothing is economics called the dismal science.

Given these textbook predictions, it should come as no surprise that the two starkest economic developments of the past 30 years—rising inequality and the increasing integration of the United States into a poorer global economy—are causally connected. The debate among researchers who have delved into this topic is generally not a disagreement about the predicted *direction* of trade’s influence but rather an empirical argument about the size of its contribution to the historic run-up in inequality seen over the past several decades. Some economists think trade explains a major portion of the rise in inequality; others believe that it explains very little. A large majority pegs the contribution somewhere between 10% and 40% of the total rise in inequality in the 1980s and early 1990s. This book shows that its influence has only become stronger since.

To date, the redistributive effect of trade has largely been a response to global integration of the manufacturing sector. The impact of the rise of trade in services, a sector once thought to be largely insulated from global competition, is starting to come into focus. Offshoring of service work potentially gives globalization a much larger lever with which to affect domestic labor market outcomes, and it could have huge implications for the future shape of earnings for American workers.

A key contribution of this book is simply to translate the costs of globalization for workers on the losing end into easily understandable terms: dollars per worker (or household). Using the best practices identified in the earlier trade and

wages debate, this book finds that the annual losses to a full-time median-wage earner in 2006 total approximately \$1,400. For a typical household with two earners, the loss is more than \$2,500. These losses are as high or higher than other economic costs commonly presented as much more damaging to American families, such as the cost of health care, spikes in gasoline and fuel oil prices, the cost of a child's four-year college education, or the funds needed to remedy a possible shortfall in the future of Social Security.

To deal with a harm as large and widespread as that imposed by globalization, we need to think much more ambitiously about public policy that re-links aggregate and individual prosperity, a policy that uses all the levers available: social insurance, public investment, fairer economic rules, and redistribution when other tools fail to provide egalitarian outcomes. Further, despite much protestation to the contrary, the globalization *status quo* is at least as stingy to the poor trading partners of the United States as it is to American workers. There is no real danger to progressive goals in calling for its complete upending.

So far we have been content to allow globalization without compensation to proceed apace. This complacency has already hurt us, and the damage will only grow in the future.